

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of

Federal-State Joint Board on Universal	§	WC Docket No. 05-337
Service Seeks Comment on the Merits of	§	
Using Auctions to Determine High-Cost	§	
Universal Service Support	§	

**REPLY COMMENTS OF
MID-RIVERS TELEPHONE COOPERATIVE, INC.**

Mid-Rivers Telephone Cooperative, Inc. (MRC) respectfully submits these reply comments in response to comments filed by several parties in the above referenced docket regarding the use of reverse auctions for receipt of universal service support funds.

INTRODUCTION

MRC is a rural incumbent local exchange carrier (ILEC) operating in Montana and North Dakota. The company was established in 1952 and does business as Mid-Rivers Communications. It operates as an ILEC in some geographic areas and as a CLEC in other areas and also provides rural wireless services through its affiliate Mid-Rivers Cellular. The company has approximately 24,500 working access lines of which approximately 18,700 are residential lines and 5,800 are business lines. MRC provides one-party telephone service with advanced services¹ in a 30,000 square mile area located in a 21-county portion of eastern Montana and three counties in North Dakota. MRC's geographic service area is larger than any telephone cooperative in the Continental United States. The company operates over 10,100 route miles of telephone facilities which includes approximately 1,400 miles of fiber optic cable. MRC has invested over \$160 million in telephone plant. Although MRC has diversified its operations over the

¹ MRC offers long distance services, video entertainment services, broadband internet access services, wireless service, and business CPE in its operating area.

years, it provides services only in the rural areas which require higher levels of investment than generally required in urban areas.

In the early 1990's the company perceived a demand for improved quality in local telecommunications services that were then provided in some nearby exchanges served by a larger ILEC. In 1997 MRC launched an affiliate that provides facility based competition in a few exchanges to meet the unanswered demand.

Since launching its competitive local exchange company (CLEC) company, MRC has invested over \$57M in plant in order to bring high quality, modern telecommunications services to these underserved rural exchanges. Most of this investment has been used to overbuild ILEC plant that was in poor repair and provided inadequate customer service. Construction was started in the town centers of the exchanges and has continued outward from the initial town center build to reach more remote subscribers. Today MRC has additional plans to continue the expansion of its CLEC facilities to cover still more of the rural service area with modern, well maintained plant. The planned construction budget for the CLEC operation is estimated at \$4M per year over the next 5 years.

MRC has been quite successful in penetrating new markets and now has over 13,800 telephone access lines in its CLEC exchanges. Its exchange market share in its facility based service area is as high as 98% in one exchange with a 77% penetration in all exchanges combined. The company believes that the reason for its success is the significantly improved level of service provided to customers both in the new services offered and in associated customer service.

MRC's CLEC and wireless operations are ETCs in all of the areas in which they provide service. Its first CLEC ETC certification was granted for the Wibaux exchange in 2000 and the most recent ETC designation for Lewistown was granted in 2006. Mid-Rivers Cellular's ETC certificate was granted in 2005.

The Commission recently ordered that the MRC CLEC operation in the Terry exchange be treated as an ILEC for purposes of the interconnection provisions (section 251) of the 1996 Telecommunications Act in response to the company's request.²

PARTIES SUPPORTING REVERSE AUCTIONS DO SO WITH CAVEATS

MRC finds it interesting that very few parties that filed supporting comments to the reverse auction concept do so without pointing out that the key to implementing an auction lies in the appropriate design of the overall process and that any auction should first be tested and, foremost, be competitively and technologically neutral. Many commenting parties point to the extreme importance in developing an unbiased auction and recognize the diversity of telecommunications carriers, however, do not provide any suggestions to address their concerns. Given that many telecommunications carriers today provide service to different geographic service areas, have deployed different technologies, have different regulatory requirements, and provide differing quality of service levels, MRC does not believe that an auction process can be developed in a competitively neutral manner³. Comments support MRC's belief that an auction cannot be developed that can overcome the potential legal challenges⁴ without a change in law. In addition, as pointed out in comments, the cost to supervise the winners and losers would likely offset any efficiency gained through an auction process.

ACCOMPLISH EFFICIENCY IN THE USF SYSTEM IN A DIFFERENT MANNER THAN AUCTIONS

As pointed out in many comments, the current universal service fund (USF) can be more efficient and achieve the Joint Board's goal of limiting growth of the fund without implementing an unproven auction process. Many parties point to the Commission's policies regarding the identical support rule as a reason the fund has grown significantly over the past few years. MRC and other parties believe that the growth in the universal

² See Wireline Competition Docket 02-78, Petition of Mid-Rivers Telephone Cooperative, Inc. for Order Declaring It to be an Incumbent Local Exchange Carrier in Terry, Montana Pursuant to Section 251(h)(2).

³ See National Telephone Cooperative Association's comments Attachment A, a research paper written by Dr. Dale Lehman discusses the myriad of issues that should be considered in developing a proper auction and, more importantly, outlines the diversity among the carriers and their serving characteristics.

⁴ RICA comments at 5.

service fund can be curtailed more effectively and with less risk to long-standing universal service principles through the elimination of the identical support rule for competitive eligible telecommunications carriers (CETCs).

As stated in numerous comments, the USF has increased significantly over the years with much of the growth of the funds attributed to the CETCs. (See Footnote 6 in comments filed by John Staurulakis, Inc.) MRC agrees that CETCs should receive universal service support based on their own costs of providing service and not based on the ILEC's cost of service. In addition, MRC submits, as other parties have through comments in this and many other USF proceedings, that the growth of the fund can be controlled if state Commission's had more clearly defined requirements and rules from the FCC to use when approving ETC filings. The Joint Board should recommend the elimination of the identical support rule for CETCs and consider providing universal service support to all ETCs based upon their own costs of providing service. MRC points out that the sparsely populated ILEC, CLEC and wireless rural areas it serves would not be afforded access to basic universal services as prescribed in the FCC rules without the support received. As a receiver of support funds, MRC is willing to base its support on its own cost of providing service in the rural areas.

AUCTIONS ARE NOT APPROPRIATE FOR ANY CARRIER

Many comments do not support the use of auctions for the rural ILECs for a multitude of reasons. For example, an auction process is theoretical at best with no empirical data to support the application of auctions as proposed by the Joint Board. However, these same comments go on to recommend that auctions be tried with CETCs⁵. The basic assumption is if the auction fails, no harm occurs to the rural ILECs and the customers they serve. As a rural CLEC that is an ETC, MRC does not agree. A rural CLEC is comparable to a rural ILEC in that it provides service to low-density, high cost rural areas just like a rural ILEC. As stated above, MRC has invested a considerable amount of capital to bring services to underserved rural areas in a similar manner as its rural ILEC

⁵ See National Exchange Carrier Association comments at 13; CenturyTel, Inc. at 22; OPASTCO comments at 14.

affiliate. MRC takes exception to the position taken in comments that rural CLECs should be considered part of an “experiment” – if an auction has potential harmful impacts on rural ILECs, the same harmful impacts will occur to rural CLECs. In addition, the customers of a rural CLEC would be faced with no service or poor service once again if the experiment fails. If auctions are risky for rural ILECs and their customers, it stands to reason the same risk factors can be applied to rural CLECs and their customers.

CONCLUSION

Along with the many other parties that filed comments in this proceeding, MRC does not believe reverse auctions is the solution to the Joint Board’s primary objective of curtaining the size of the USF. While limiting the growth of the USF is a worthy goal, it is imperative that action taken by the Joint Board not adversely affect long-standing universal service principles. Rural areas, such as served by MRC, require support to ensure the availability of quality service to customers at just, affordable rates that are comparable to the rates and services provide in urban areas⁶. MRC believes there are less risky alternatives that should be taken under consideration before subjecting any carrier to an “experiment” that may cause harm to the carriers and their customers.

Respectfully submitted,

Mid-Rivers Telephone Cooperative, Inc.


By: **Gerry Anderson**

⁶ 47 U.S.C. Sec. 254 (b) (1) and (3).